Annual Financial Report Year Ended June 30, 2008



**Annual Financial Report** 

Year Ended June 30, 2008

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### **Independent Auditors' Report**

Board of Education Holland Public Schools Holland, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Holland Public Schools (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements. These financial statements are the responsibility of the management of the District. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Holland Public Schools at June 30, 2008, and the respective changes in financial position and budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated October 8, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards as required by OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the combining, individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Holland Public Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Grand Rapids, Michigan October 8, 2008

BDO Serdma, LLP

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# School District of the City of Holland Management's Discussion and Analysis For Fiscal Year Ended June 30, 2008

As management of Holland Public Schools (the District), we offer this narrative overview and analysis of the financial activities of Holland Public Schools for the year ended June 30, 2008.

Generally accepted accounting principles (GAAP) require the reporting of two types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

### **District-Wide Financial Statements**

The district-wide financial statements are prepared using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt and other long-term liabilities of the District.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets can serve as a barometer of financial health and whether the District's financial position is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the year. This statement focuses on both the gross and net cost of the various activities which are supported by the District's general tax, state aid and other revenues. This presentation is intended to summarize and simplify the user's analysis of the cost of the various governmental services.

#### **Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are measurable and currently available are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. In the State of Michigan, school districts' major instruction and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds and Capital Project (Sinking) Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt obligations are not recorded in the fund financial statements.

### **District-Wide Financial Analysis**

The following schedule summarizes the net assets at June 30, 2008 and 2007.

Summary of Net Assets

	2008	2007	Change
Assets			
Current assets	\$ 15,758,889	\$ 16,094,521	\$ (335,632)
Capital assets	44,082,284	42,916,519	1,165,765
Less: accumulated depreciation	(23,814,538)	(22,816,346)	(998,192)
Capital assets, net book value	20,267,746	20,100,173	167,573
Total Assets	36,026,635	36,194,694	(168,059)
Liabilities			
Current liabilities	8,596,734	9,868,695	(1,271,961)
Noncurrent liabilities	32,343,847	34,065,071	(1,721,224)
Total Liabilities	40,940,581	43,933,766	(2,993,185)
Net Assets (Deficit)			
Invested in capital assets, net of related debt	3,278,632	(121,294)	3,399,926
Restricted for debt service	1,374,435	1,807,643	(433,208)
Restricted for capital projects	1,419,182	1,105,116	314,066
Unrestricted	(10,986,195)	(10,530,537)	(455,658)
<b>Total Net Assets (Deficit)</b>	\$ (4,913,946)	\$ (7,739,072)	\$ 2,825,126

Current assets decreased for the year as the District realized lower revenue from operations and expended cash reserves. Structural adjustments to the operations of the District from previous years have continued to support cost containment activities which has resulted in a positive net assets improvement.

Capital assets increased during the year as the District continued investment in school facilities. Many improvement projects were completed in the District facilities including Holland Heights, the High School, and Jefferson 4-5 that increased capital assets by \$1,165,765.

Total liabilities were down by \$2,993,185 due to reductions in short-term liabilities. The District did not borrow funds through the State Aid Cash Flow borrowings program during the year.

### Capital Assets

At June 30, 2008 the District had invested \$44,082,284 in a broad range of capital assets, including school buildings and facilities, site improvements, school buses and other vehicles and various types of equipment. Depreciation expense for the year amounted to approximately \$1,153,000 bringing accumulated depreciation to \$23,814,538 as of June 30, 2008.

## Capital Assets at Year End (Net of Depreciation)

Buildings and improvements	\$ 17,146,573
Land and improvements	1,326,062
Machinery, equipment and furniture	1,225,554
Transportation equipment	569,557
	\$ 20,267,746

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with accounting principles generally accepted in the United States of America, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable.

### Long-Term Liabilities

At June 30, 2008, the District had approximately \$35.88 million in long-term debt outstanding. This represents a reduction of about \$1.56 million over the amount outstanding at the close of the prior fiscal year.

For more detailed information regarding capital assets and debt administration, please review the notes to the financial statements located in the financial section of this report.

### Results of Operations

For the fiscal years ended June 30, 2008 and 2007, the results of operations, on a district-wide basis were:

	2007-08	2006-07	Change
G. J.B.			
General Revenues	<b>0.11.154.45</b> 0	ф. 10.0 <b>2</b> 0.0 <b>2</b> 6	Φ 222.524
Property taxes levied for general purposes	\$ 11,154,470	\$ 10,920,936	\$ 233,534
Property taxes levied for debt service	3,063,698	3,294,694	(230,996)
Property taxes levied for capital projects	980,665	951,709	28,956
Unrestricted state aid	21,682,180	23,534,824	(1,852,644)
Investment earnings	573,185	626,567	(53,382)
Gain on sale of assets	9,767	318,733	(308,966)
Miscellaneous	111,714	179,465	(67,751)
Total general revenues	37,575,679	39,826,928	(2,251,249)
Program Revenues			
Charges for services	848.685	807,757	40,928
Operating grants and contributions	10,462,030	10,617,618	(155,588)
Operating grants and contributions	10,402,030	10,017,010	(155,500)
Total program revenues	11,310,715	11,425,375	(114,660)
Total Revenues	48,886,394	51,252,303	(2,365,909)
Expenses			
Instruction	25,428,368	26,277,998	(849,630)
Support services	14,632,922	14,060,492	572,430
Community services	169,076	77,820	91,256
Food services	1,635,186	1,458,658	176,528
Athletics	727,819	757,911	(30,092)
Interest on long-term debt	2,314,697	2,314,544	153
Unallocated depreciation	1,153,200	1,054,816	98,384
Total Expenses	46,061,268	46,002,239	59,029
Increase in Net Assets	\$ 2,825,126	\$ 5,250,064	\$ (2,424,938)

In most of the above categories, the differences between the 2006-07 fiscal year and the 2007-08 fiscal year (change) would be considered well within the normal range with a few exceptions. Due to student enrollment declines, unrestricted state aid decreases were not offset by increases in other revenue categories.

In the 2006-07 fiscal year, the District received the final installment on the sale of a piece of property. No other properties were sold in the 2007-08 fiscal year.

Costs associated with instruction expenses decreased by \$849,630 from one fiscal year to the next. The primary reductions in this group of expenses can be attributed to staffing reductions which have helped match staffing needs with the reduction in the District's enrollment. Costs associated with support services increased by \$572,430 from one fiscal year to the next. Additional support for special education, staff development and investments in technology for the classrooms has accounted for a portion of this increase. In addition, increases in purchased services for snow removal and other building repair services combined with utilities increases accounted for over approximately \$130,000 increase from the previous year.

### **Analysis of Significant Revenues and Expenditures**

Significant revenues and expenditures are discussed in the segments below:

#### State Sources

The District is predominately funded by state aid. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. During the 2007-08 school year districts throughout the State of Michigan have received an increase in the per-pupil allocations they received for the prior fiscal year. The blended pupil membership was 4,654 for 2006-07 fiscal year and 4,394 for 2007-08. The state per-pupil allocation was \$7,223 for 2006-07 and \$7,339 for 2007-08.

#### Student Enrollment

The District's enrollment for the fall count of 2007-08 was 4,375 students. This is a decrease in enrollment of 246 students from the prior fall. The District is a geographically small, landlocked district in Allegan and Ottawa Counties. The majority of the land area of the District is within the city of Holland, Michigan. A recent report indicates that there are fewer than 50 residential building sites available in the city. Growth from new residential construction is unlikely. In addition, student enrollment has been negatively impacted by economic conditions in the area.

	Student	Change From	% of
	Count	Prior Year	Change
Fall 2007	4,375	(246)	(5.32)
Fall 2006	4,621	(234)	(4.81)
Fall 2005	4,855	(165)	(3.29)
Fall 2004	5,020	(225)	(4.29)
Fall 2003	5,245	(137)	(2.55)
		·	The state of the s

### Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties. Each year the voters of the District have approved an override to the reductions otherwise required by the Headlee Amendment. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is 50% of the property's market value.

For the 2007-08 fiscal year, the District's net property tax revenues were \$11,154,470. The increase of 2.14% from the prior year was due to growth in the District's total homestead and non-homestead property taxable value.

The District levied 2.30 mills of property taxes on all classes of property located within the District for bonded debt retirement. This levy is reduced as property values increase and is used to pay the principal and interest on bond obligations. The total of revenues for debt retirement in the current year was \$3,157,279. This is a 9.2% decrease from the prior year and is due primarily to a reduction in the tax rate required to fulfill debt requirements.

### General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2007-08 fiscal year, the District amended the general fund budget one time, with the Board adopting the changes in June 2008. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget, and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance With Final Budget	% Variance
<b>Total Revenues</b>	\$ 41,880,603	\$ 42,835,335	\$ 42,833,797	\$ (1,538)	(0.004)
<b>Expenditures and Transfers</b>					
Instruction	\$ 25,614,745	\$ 25,335,877	\$ 25,576,514	\$ (240,637)	(0.95)
Support services	15,902,779	15,513,957	14,949,273	564,684	3.64
Community services	190,033	165,395	169,076	(3,681)	(2.23)
Debt retirement	138,500	138,500	138,173	327	0.24
Transfer	620,000	681,231	682,000	(769)	(0.11)
<b>Total Expenditures and Transfers</b>	\$ 42,466,057	\$ 41,834,960	\$ 41,515,036	\$ 319,924	0.76

The actual revenues for the general fund were \$42,833,797. This is above the original budget estimate of \$41,880,603 and is below the final amended budget amount of \$42,835,335 by \$1,538 or less than 0.004%. The actual general fund expenditures were \$40,022,630. This is below the original budget estimate of \$41,226,057 and is also below the final amended budget amount of \$40,482,729.

The variance between the actual revenues and the original and final revenue budgets are due primarily to the following:

- Lower than anticipated enrollment figures which resulted in reduced revenue from the State of Michigan for State Aid Foundation Grant payments.
- Reductions in federal funding sources under Title I-A grant and Special Education Act 18 and center payment adjustments.

The variances between the actual general fund expenditures and the original and final expenditure budgets include the following:

- Adjustments to staffing levels for both teachers and administration and the associated retirement expenditures provided variances to budget.
- Continued cost containment activities in several departments producing over \$483,000 in cost reductions from original budget.
- Timing delays in the receipt of several bus purchases and technology-related expenses totaling over \$220,000 which were approved in 2007-08 budget, these purchases will be recognized in 2008-09 financials.

### Analysis of Financial Position

The financial condition of the District improved from June 30, 2007. The \$1.3 million increase in the general fund balance was the result of the District's ability to contain costs while experiencing reductions in state aid and federal fund dollars. The increase in fund balance will allow the District to provide appropriate capital investments to sustain long-term viability given the potential for continued declining enrollment.

### **Factors Bearing on the District's Future**

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its health in the future:

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded in subsequent fiscal years.
- As with other employers, the District continues to face increases in rates paid for employee wages and other benefits even as revenue declines.
- Continued focus on containing costs to match the size of the student body will be key in maintaining positive fund balance going forward.
- Investment in the District's facilities will require careful planning and implementation in the coming years to best support student achievement.

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Business Manager, Holland Public Schools; Holland, Michigan.

# **Basic** Financial Statements

# District-Wide Financial Statements

# District-Wide Financial Statements Statement of Net Assets

June 30, 2008	Governmental Activities
Assets	
Current Assets	
Cash and investments (Note 3)	\$ 10,616,084
Accounts receivable	19,543
Due from other governmental units	5,041,607
Inventories	44,501
Prepaid expenses	14,154
Other current assets	23,000
Total current assets	15,758,889
Noncurrent Assets	
Capital assets, net of accumulated depreciation (Note 5)	20,267,746
Total Assets	36,026,635
Liabilities	
Current Liabilities	
Accounts payable	688,632
Accrued payroll and benefits	3,919,056
Accrued interest	60,125
Due to other governmental units	29,564
Unearned revenue	360,831
Current portion of long-term obligations (Note 7)	3,538,526
Total current liabilities	8,596,734
Noncurrent Liabilities	
Noncurrent portion of long-term obligations (Note 7)	32,343,847
Total Liabilities	40,940,581
Net Assets (Deficit)	
Invested in capital assets, net of related debt	3,278,632
Restricted for debt service	1,374,435
Restricted for capital projects	1,419,182
Unrestricted	 (10,986,195)
Total Net Deficit	\$ (4,913,946)

# District-Wide Financial Statements Statement of Activities

					Net (Expense) Revenue and Changes in Net Assets
			_	_	Primary
			Prograi	n Revenues	Government
			<b>~</b>	Operating	
V 1.11 20.2000	<b></b>		Charges for	Grants and	Governmental
Year ended June 30, 2008	Expenses		Services	Contributions	Activities
Primary Government					
Governmental Activities					
Instruction	\$ 25,428,368	\$	34,319	\$ 7,940,360	\$(17,453,689)
Support services	14,632,922	Ψ	137,758	1,456,595	(13,038,569)
Community services	169,076		-	-	(169,076)
Food service	1,635,186		525,550	1,065,075	(44,561)
Athletics	727,819		151,058	-	(576,761)
Interest on long-term debt	2,314,697		-	_	(2,314,697)
Unallocated depreciation	1,153,200		_	-	(1,153,200)
<b>Total Primary Government</b>	\$ 46,061,268	\$	848,685	\$ 10,462,030	(34,750,553)
	General revenue	<b>.</b> c.			
	Property taxes		wied for gene	eral nurnoses	11,154,470
	Property taxe		_		3,063,698
	Property taxes				980,665
	Unrestricted s		-	tai projects	21,682,180
	Miscellaneou			ies	111,714
	Gain on sale of	_		ies	9,767
	Investment ea				573,185
			<u> </u>		
	Total general re	ver	nues		37,575,679
	Change in net d	efic	cit		2,825,126
	Net Deficit, beg	(7,739,072)			
	Net Deficit, end	l of	year		\$ (4,913,946)

# Fund Financial Statements

# **Governmental Funds Balance Sheet**

June 30, 2008	General	Debt Retirement		apital Projects Property Sales Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and investments (Note 3)	\$ 5,486,448	\$1,426,622	\$	1,746,244	\$ 1,956,770	\$10,616,084
Accounts receivable	11,313	7,703		-	-	19,016
Due from other funds (Note 4)	1,316	-		-	1,698	3,014
Due from other governmental units	5,028,084	235		-	13,288	5,041,607
Inventories	6,155	_		-	38,346	44,501
Other current assets	23,000	_		-	-	23,000
Prepaid expenditures	14,154	-		-	-	14,154
Total Assets	\$10,570,470	\$1,434,560	\$	1,746,244	\$ 2,010,102	\$15,761,376
<b>Liabilities and Fund Balances</b>						
Liabilities						
Accounts payable	\$ 628,588	\$ -	\$	-	\$ 60,044	\$ 688,632
Accrued payroll liabilities	3,892,570	-	·	-	15,300	3,907,870
Due to other funds (Note 4)	1,570	_		762	155	2,487
Due to other governmental units	29,464	_		-	100	29,564
Deferred revenue	300,619	-		-	60,212	360,831
Total liabilities	4,852,811			762	135,811	4,989,384
Fund Balances						
Reserved for:						
Inventories and prepaids	20,309	_		_	38,346	58,655
Encumbrances	164,333	_		_	-	164,333
Unreserved, designated for:						
Postemployment benefits	217,841	_		_	_	217,841
Unreserved, undesignated reported in:	.,-					- ,-
General fund	5,315,176	_		-	-	5,315,176
Capital projects funds	-	_		1,745,482	1,419,182	3,164,664
Special revenue funds	-	_		-	416,763	416,763
Debt retirement fund	-	1,434,560		-	-	1,434,560
Total fund balances	5,717,659	1,434,560		1,745,482	1,874,291	10,771,992
<b>Total Liabilities and Fund Balances</b>	\$10,570,470	\$1,434,560	\$	1,746,244	\$ 2,010,102	\$15,761,376

## Reconciliation of Fund Balances of Governmental Funds to Net Assets on the Statement of Net Assets

June 30, 2008		
Total fund balances - total governmental funds (from page 20)		\$ 10,771,992
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:  Capital assets, at cost	\$ 44,082,284	
Accumulated depreciation Net capital assets	(23,814,538)	20,267,746
Claims incurred but not reported for self-insurance are not due and payable in the current period and therefore are not reported in the funds.		(11,186)
Long-term liabilities, including accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds. Balances are as follows:		
Bonds payable	(16,943,526)	
Accrued interest on capital appreciation bonds	(18,659,979)	
Installment contracts payable	(45,588)	
Retirement contracts payable	(82,388)	
Retirees' insurance	(150,892)	
Accrued interest on bonds	(60,125)	
Total long-term liabilities		(35,942,498)
Net Deficit of Governmental Activities	,	\$ (4,913,946)

Year ended June 30, 2008	General	Debt Retirement
Revenues		
Local sources:		
Property taxes	\$ 11,154,470	\$ 3,063,698
Other local	589,740	93,581
Intermediate sources	4,239,552	-
State sources	23,332,909	_
Federal sources	3,517,126	-
Total revenues	42,833,797	3,157,279
Expenditures		
Instruction	25,576,514	-
Support services	14,949,273	-
Community services	169,076	-
Food service	-	-
Athletics	-	-
Debt retirement:		
Redemption of principal	132,353	3,100,000
Interest and fiscal charges	5,820	516,320
Capital outlay	-	
Total expenditures	40,833,036	3,616,320
Excess (deficiency) of revenues over expenditures	2,000,761	(459,041)
Other Financing Sources (Uses)		
Transfers in (Note 4)	-	-
Transfers out (Note 4)	(682,000)	-
Sale of assets	9,767	
<b>Total Other Financing Sources (Uses)</b>	(672,233)	
Changes in fund balances	1,328,528	(459,041)
Fund Balances, beginning of year	4,389,131	1,893,601
Fund Balances, end of year	\$ 5,717,659	\$ 1,434,560

# Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances

Cap	oital Projects Property Sales Fund	Other Governmental Funds	Total Governmental Funds
\$	73,160	\$ 980,665 766,651	\$ 15,198,833 1,523,132 4,239,552
	-	65,510 999,565	23,398,419 4,516,691
	73,160	2,812,391	48,876,627
	-	-	25,576,514
	-	-	14,949,273 169,076
	-	1,635,186 727,819	1,635,186 727,819
	-	-	3,232,353
	113,524	893,538	522,140 1,007,062
	113,524	3,256,543	47,819,423
	(40,364)	(444,152)	1,057,204
	62,000	620,000	682,000 (682,000) 9,767
	62,000	620,000	9,767
	21,636	175,848	1,066,971
	1,723,846	1,698,443	9,705,021
\$	1,745,482	\$ 1,874,291	\$ 10,771,992

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2008		
Changes in fund balances - total governmental funds (from page 23)		\$ 1,066,971
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.  Capital outlay  Depreciation expense  Net effect of capital outlays	\$1,320,773 (1,153,200)	167,573
Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bonds and note principal is an expenditure in governmental funds, but reduces long-term liabilities in the statement of net assets. Principal payments Installment purchase contracts	3,100,000 132,353	3,232,353
Claims incurred but not reported for self-insurance are not due and payable in the current period and therefore are not reported in the funds.		2,640
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  Accrued interest on bonds Retirement contracts Retirees' insurance Net effect of long-term liabilities	(1,792,557) 44,310 103,836	(1,644,411)
Change in Net Deficit of Governmental Activities		\$ 2,825,126

General Fund Statement of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual

Year ended June 30, 2008	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
_				
Revenues	* * * * * * * * * * * * * * * * * * * *	***	*	
Property taxes	\$10,739,330	\$11,158,875	\$11,154,470	\$ (4,405)
Other local sources	264,750	586,261	589,740	3,479
Intermediate sources	4,244,449	4,213,025	4,239,552	26,527
State sources	23,272,200	23,336,906	23,332,909	(3,997)
Federal sources	3,359,874	3,540,268	3,517,126	(23,142)
Total revenues	41,880,603	42,835,335	42,833,797	(1,538)
Expenditures				
Instruction:				
Elementary	9,169,752	9,312,344	9,362,440	(50,096)
Middle school	2,977,315	2,971,159	2,958,751	12,408
High school	5,297,178	5,421,595	5,410,837	10,758
Early childhood	286,160	224,933	232,534	(7,601)
Special education	5,325,620	4,977,431	5,074,461	(97,030)
Compensatory education	2,092,372	2,034,198	2,057,342	(23,144)
Vocational education	334,704	303,992	322,232	(18,240)
Adult education	131,644	90,225	157,917	(67,692)
Total instruction	25,614,745	25,335,877	25,576,514	(240,637)
Support services:				
Counseling	833,766	720,424	720,257	167
Special education ancillary	2,228,743	2,234,517	2,318,514	(83,997)
Improvement of education	1,467,257	1,422,480	1,363,748	58,732
Media services	360,757	246,376	254,343	(7,967)
Instructional support	498,430	521,472	480,512	40,960
Board of education	270,539	118,650	129,923	(11,273)
Executive administration	300,884	296,909	303,435	(6,526)
School administration	2,467,775	2,167,251	2,153,057	14,194
Fiscal services	433,681	334,285	296,471	37,814
Printing services	387,120	341,068	326,428	14,640
Other business services	373,633	434,809	337,045	97,764
Operation and maintenance	3,732,973	3,759,088	3,574,325	184,763

## General Fund Statement of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual

Year ended June 30, 2008		Original Budget		Final idget	A	Actual	F	riance With Final Budget Positive (Negative)
Security	\$	151,495	\$ 157,	144	\$ 164	,329	\$	(7,185)
Student transportation		1,122,207	1,053,			5,845	Ф	156,816
Research and development		29,127		005		,550		3,455
Communication services		200,614	206,			1,944		1,705
Staff services		425,844	200, 376,			5,112		1,632
Support services technology		871,841	980,			3,608		56,620
Other support services		(253,907)	107,			,827		12,370
Other support services		(233,701)	107,	177		1,027		12,370
Total support services	1	5,902,779	15,513,	957	14,949	,273		564,684
Community services		190,033	165,	395	169	,076		(3,681)
Debt retirement:								
Redemption of principal		132,500	132,			2,353		147
Interest		6,000	6,	000	5	5,820		180
Total debt retirement		138,500	138,	500	138	3,173		327
Total expenditures	4	1,846,057	41,153,	729	40,833	3,036		320,693
Excess of revenues over expenditures		34,546	1,681,	606	2,000	),761		319,155
Other Financing Sources (Uses)								
Transfers out		(620,000)	(681,		•	2,000)		(769)
Sale of assets		-	9,	767	9	,767		_
Total other financing uses		(620,000)	(671,	464)	(672	2,233)		(769)
Changes in fund balance		(585,454)	1,010,	142	1,328	3,528		318,386
Fund Balance, beginning of year		4,389,131	4,389,	131	4,389	,131		
Fund Balance, end of year	\$	3,803,677	\$ 5,399,	273	\$ 5,717	,659	\$	318,386

# Fiduciary Funds Statement of Fiduciary Net Assets

June 30, 2008	Scholarsh Trust Fur	-	Agency Fund	
Assets Cash and investments (Note 3)	\$ 542,660	5 \$	247,345	
Liabilities				
Accounts payable		- \$	9,958	
Due to other funds (Note 4)		-	527	
Due to student groups		-	236,860	
Total Liabilities		- \$	247,345	
Net Assets	\$ 542,660	<u> </u>		

# Fiduciary Funds Statement of Changes in Fiduciary Net Assets

ur ended June 30, 2008		cholarship Frust Fund
Additions		
Contributions	\$	21,172
Investment income	Ψ	22,582
Total additions		43,754
Deductions		
Awards		2,700
Other expenses		3,095
Total deductions		5,795
Change in net assets		37,959
Net Assets, beginning of year		504,707
Net Assets, end of year	\$	542,666

### **Notes to Financial Statements**

## 1. Summary of Significant Accounting Policies

The basic financial statements of Holland Public Schools (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

## Reporting Entity

The District is an independent entity with an elected Board of Education. The Board consists of seven members elected to four-year terms. The Board has responsibility and control over all matters affecting the District, including authority to levy taxes and determine its budget, the power to designate management and primary accountability for fiscal matters. The basic financial statements of the District contain all funds and account groups for which the District is financially accountable.

### Basis of Presentation

District-wide financial statements: The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize activities as either governmental or business-type. All of the District's activities are classified as governmental.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to recipients who purchase, use or directly benefit from goods, services or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function. Property taxes, state aid foundation and certain other items are reported as general revenues.

## **Notes to Financial Statements**

Fund financial statements: The fund financial statements provide information about the District's funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements.

When both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first.

### Governmental Funds

Governmental Funds are used to account for the District's general activity. The focus is on determination of the financial position and changes in financial position rather than on income determination. The following is a description of the Governmental Funds of the District:

*General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. It is considered a major fund.

*Special Revenue Funds* are used to account for revenue sources that are restricted to expenditures for specified purposes. The District operates two special revenue funds: Food Service and Athletics.

Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. It is considered a major fund.

Capital Projects Funds are used to account for financial resources to be used for the acquisition and construction of major capital facilities. The District has two capital projects funds: the Property Sales Fund and the 1998 Sinking Fund. The Property Sales Fund is considered a major fund.

### **Notes to Financial Statements**

## Fiduciary Funds

The *Private-Purpose Trust Fund* is used to account for funds entrusted to the District for student scholarships.

The *Agency Fund* is used to account for assets held by the District in a trustee capacity for individuals or school-related organizations. The Student Activities Agency Fund is custodial in nature and does not involve measurement of results of operations.

## Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

District-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in the district-wide financial statements to the extent that those standards do not conflict with GASB guidance.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough after to pay liabilities for the current period. The District considers revenues available if collected within 60 days after year-end.

Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated

### **Notes to Financial Statements**

absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

#### State Foundation Revenue

The State of Michigan provides funds through a foundation grant approach, which provides for a specific annual amount of revenue per student based on statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. For the year ended June 30, 2008, the foundation allowance was based on the blended average of pupil membership counts taken in February and September 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills.

### State Categorical Revenue

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

### Federal Revenue

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

### **Budgets and Budgetary Accounting**

The budgetary data reflected in the financial statements is established by the District using the procedures outlined below:

Starting in the spring, administrative personnel and department heads work with the Superintendent of the schools to establish a proposed operating budget for the fiscal year commencing the following July 1.

### **Notes to Financial Statements**

Prior to June 30, an initial appropriations budget is adopted by the Board of Education for the subsequent fiscal year to comply with State of Michigan regulations.

Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or as amended by the District on various dates.

Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Board of Education. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after the fiscal year-end as dictated by law.

The budget is integrated with the accounting system of the District and is used as a management control device during the year.

### Investments

Investments are recorded at fair value.

### **Inventories**

Inventories are stated at cost, using the first-in, first-out method, except USDA-donated commodities, which are recorded at fair market value. Inventories consist primarily of food, cafeteria supplies, teaching and maintenance supplies. Governmental Fund inventories are reported as assets until consumed, at which time an expenditure is recorded.

### Capital Assets

Capital assets, which include property, buildings and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at their market value as of the donation date.

## **Notes to Financial Statements**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets useful lives are not capitalized. Major outlays for capital assets are capitalized as projects are constructed. Depreciation is provided for on the straight-line basis over the estimated useful lives of the assets as follows:

	Years
Land improvements	5-30
Buildings and additions	20-45
Furniture and equipment	5-20
Transportation equipment	5-20

### **Compensated Absences**

District employees are granted vacation and sick leave in varying amounts based on individual contracts. Sick leave is accumulated at different rates for various categories of employees; however, all accumulated leave time terminates upon severance of employment. There is also a sick leave bank that is funded by voluntary employees' donations of sick time. There is no carryover provision for vacation time. In accordance with generally accepted accounting principles, there has been nothing accrued for sick and vacation time. The matured liability for compensated absences is reported in the fund financial statements.

### **Long-Term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. In the fund financial statements, the face amount of new debt issued is reported as other financing sources.

### Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net assets are reported as restricted when there are limitations imposed on their use, either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

### **Notes to Financial Statements**

## **Property Taxes**

Properties are assessed as of December 31, and approximately one-half of the related property taxes are levied and become a lien on July 1. The remaining taxes are levied and become a lien on December 1. These taxes are due on September 15 (August 15 for the City of Holland) and February 15, respectively, with the final collection date of February 28, before they are added to the county delinquent tax rolls.

### **Interfund Activity**

During the course of its operations, the District has various transactions between funds. The District annually transfers funds to the Athletic Fund to cover operating shortfalls and also transfers funds to the Capital Projects Funds as needed for specific projects. To the extent that certain transactions had not been paid or received as of June 30, 2008, balances of interfund receivables or payables have been recorded.

## Use of Estimates

The preparation of financial statements requires estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## 2. Stewardship, Compliance and Accountability

At June 30, 2008, the following funds had expenditures in excess of budget:

Fund	Budget	Actual	Variance
Athletics Food Service	\$ 736,507 1,708,905	\$ 762,513 1,751,444	\$ (26,006) (42,539)

Revenues and/or fund balance were sufficient to cover the excess expenditures.

### **Notes to Financial Statements**

## 3. Cash and Investments

## **Deposits**

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also members of a federal or national insurance corporation.

## Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The District's policy for mitigating custodial credit risk is to only allow deposits in approved depositories. At June 30, 2008, \$4,399,326 of the District's bank balances of \$4,599,326 was uninsured and uncollateralized.

#### Investments

At June 30, 2008, the District had the following investments:

Investment	Fair Value
Michigan Class Fund (MI Class) Michigan Liquid Asset Fund (MILAF)	\$ 7,071,090 36,686
Total	\$ 7,107,776_

#### Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations.

State statutes authorize the District to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, banker's acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency and investment pools authorized by the Surplus Funds Investment Pool Act.

## **Notes to Financial Statements**

The District mitigates credit risk by qualifying financial institutions and dealers and limiting a single investment in securities that are not government insured to no more than 5% of the total current investment portfolio.

The District's investments in MILAF and MI Class are classified as municipal investment funds. All Municipal Investment Funds are invested in accordance with the School Code. Each school district owns a pro rata share of each investment, which is held in the name of the Fund. At June 30, 2008 the Michigan Liquid Asset Fund was rated AAAm by Standard & Poor's. The Michigan Class Fund was rated AAA by Fitch Ratings.

#### Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District mitigates this risk by requiring all investments mature or be redeemable within two years of the date of purchase. MILAF and MI Class have maturity dates of less than one year.

## 4. Interfund Activity

Transfers between funds during the year ended June 30, 2008 were as follows:

Fund	Transfers In	Transfers Out
General Athletics Property Sales Fund	\$ - 620,000 62,000	\$ 682,000 - -
	\$682,000	\$ 682,000
Interfund balances at June 30, 2008 are as follows:		
Fund	Interfund Receivable	Interfund Payable
General Food Service Athletics Property Sales Fund Agency	\$ 1,316 1,698 - -	\$ 1,570 55 100 762 527
	\$ 3,014	\$ 3,014

## **Notes to Financial Statements**

## 5. Capital Assets

The following summarizes capital assets activity for the year ended June 30, 2008.

		Balance, July 1,								Balance, June 30,
		2007	A	dditions	De	letions	Tra	ansfers		2008
Governmental Activities										
Capital assets not depreciated:										
Land	\$	612,475	\$		\$	_	Φ	_	Φ	612,475
Capital assets being depreciated:	φ	012,473	φ	-	φ	-	φ	-	φ	012,473
1 0 1	2	2.075.260	,	705.050			(1	22.065)		24 570 154
Buildings		3,975,269		725,850		-	,	22,965)		34,578,154
Land improvements		2,889,702		12,608		-		64,115)		2,838,195
Furniture and equipment		3,341,894	:	582,315		-		74,480		4,098,689
Transportation equipment		2,097,179		-	1	55,008		12,600		1,954,771
Totals at historical cost	4	2,916,519	1,	320,773	1	55,008		-		44,082,284
Less accumulated depreciation for:										
Buildings	1	6,730,588	•	700,993		_		_		17,431,581
Land improvements		2,013,627		110,981		_		_		2,124,608
Furniture and equipment		2,674,853		218,566		_	(	20,284)		2,873,135
Transportation equipment		1,397,278		122,660	1	55,008	,	20,284		1,385,214
Transportation equipment		1,371,270		122,000	1	33,000		20,204		1,303,214
Total accumulated depreciation	2	2,816,346	1,	153,200	1	55,008		-		23,814,538
										<del></del>
Net Capital Assets	\$2	0,100,173	\$	167,573	\$	-	\$	-	\$	20,267,746

Depreciation for the year ended June 30, 2008 was \$1,153,200. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

## 6. Short-Term Notes Payable

At times, the District obtains short-term financing to fund general operations. On April 19, 2007 the District borrowed \$2,000,000 through a Michigan Municipal Bond Authority State School Aid Anticipation Note. This note was paid on August 20, 2007. The District did not have any short-term borrowings outstanding at June 30, 2008.

## **Notes to Financial Statements**

## 7. Long-Term Obligations

The following is a summary of changes in long-term obligations for the District for the year ended June 30, 2008.

	Balance, July 1,			Balance, June 30,	Due Within
	2007	Additions	Deductions	2008	One Year
Bonds payable	\$ 20,043,526	\$ -	\$ 3,100,000	\$16,943,526	\$ 3,360,000
Accrued interest on capital appreciation bonds	16,841,589	1,818,390	-	18,659,979	-
Installment purchase agreement	177,941	-	132,353	45,588	45,588
Retirement contracts payable	126,698	-	44,310	82,388	34,297
Retirees' insurance	254,728	-	103,836	150,892	98,641
	\$ 37,444,482	\$ 1,818,390	\$ 3,380,499	\$35,882,373	\$ 3,538,526

The installment purchase, retirement contracts and retirees' insurance liabilities are normally liquidated by the General Fund.

Bonds payable June 30, 2008 are comprised of the following individual issues:

		Remaining
	Principal	Interest
	Outstanding	Requirements
2002 Refunding Bonds, due in annual installments of \$3,360,000 to \$3,855,000 through May 1, 2010, interest at 5.0%.	\$ 7,215,000	\$ 553,500
1992 Refunding Bonds, Capital Appreciation Bonds, due in annual installments of \$919,917 to \$1,267,221 from May 1,		
2011 through May 1, 2019, interest at 6.7% to 6.8%.	9,728,526	34,761,474
	\$16,943,526	\$35,314,974

The 1992 bond issue consists of capital appreciation bonds. The bonds, upon which no interest is paid, appreciate in value over time to \$44,490,000. Starting May 1, 2011, the bonds mature annually through 2019. Interest accrues on these bonds semi-annually in November and May, even though the interest is not paid until maturity.

### **Notes to Financial Statements**

## Early Retirement Incentive/Retirees Insurance

The District had an early retirement incentive plan that offered an initial payment of \$5,300 within 30 days following the last working day, or January 5 of the next calendar year. Each subsequent year a payment of \$1,600 is made, with a maximum of seven annual payments. Under this plan, the District also offers health insurance for the five years following retirement, or until the teacher reaches 62 years of age. This plan was not offered during the fiscal year ended June 30, 2008. The total present value of the future payments was calculated using a discount rate of 3.94%.

### Installment Purchase Contract

The District entered into an installment purchase agreement to finance the acquisition of four school buses. The agreement calls for monthly principal and interest payments of \$11,514 through October 2008.

## **Debt Service Requirements**

The annual requirements to service the bonds outstanding to maturity including both principal and interest are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 3,360,000	\$ 360,750	\$ 3,720,750
2010	3,855,000	192,750	4,047,750
2011	1,267,221	3,117,779	4,385,000
2012	1,213,949	3,316,051	4,530,000
2013	1,168,542	3,491,458	4,660,000
2014-2018	5,158,897	20,221,103	25,380,000
2019	919,917	4,615,083	5,535,000
	\$ 16,943,526	\$ 35,314,974	\$ 52,258,500

**Notes to Financial Statements** 

## 8. Employee Retirement System - Defined Benefit Plan

## Plan Description

The District contributed to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the nine-member board of the MPSERS. The MPSERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and currently operates under the provision of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by contacting the Michigan Public Schools Employees' Retirement System, P.O. Box 30026, Lansing, Michigan 48909.

## **Funding Policy**

Basic Plan members make no contributions. Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008 were 17.74% from July 1, 2007 through September 30, 2007 and 16.72% from October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District's contributions to MPSERS for the current and two preceding years were as follows:

	Employer
Year ended June 30,	Contribution
2008	\$4,023,180
2007	4,271,372
2006	4,096,428

### **Notes to Financial Statements**

## Other Post Employment Benefits

Retirees have the option of health, dental, and vision coverage, which is funded on a cash basis by the employers. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

## 9. Risk Management and Benefits

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omission; injuries to employees and natural disasters. The District has purchased commercial insurance for all the above types of risks. Settled claims have not exceeded the commercial coverage in any of the last three years.

## 10. Sinking Fund

The District's Capital Projects Funds include capital project activities funded with a sinking fund millage. For this fund, the District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the Michigan Department of Treasury Letter No. 01-95.

## 11. Contingencies

In the normal course of its activities, the District becomes a party in various legal actions. Management has determined that the outcome of any such actions will not have a material effect on the financial position of the District.

The District participates in a number of federal programs that require compliance with specific terms and conditions and are subject to audits by the contracting agencies. Management believes that the effect of any disallowed expenditures would be immaterial to the financial statements.

**Notes to Financial Statements** 

## 12. Commitments

During 2004, the District entered into an agreement with a third party under which the District is obligated to pay approximately \$65,000 per month for various custodial services. The agreement was for the period of December 2004 through November 2007. The original agreement was amended during 2006, extending the service period through June 30, 2010, after which the agreement is renewable for one-year periods unless cancelled by either party.

The District also has an agreement with an outside vendor to purchase printing and copying services. This agreement was entered into in December 2004 and was for a term of four and half years, and renews for additional one-year periods unless cancelled by either party. The District is to attempt to purchase a total of \$400,000 in services each year. Expenditures for the year ended June 30, 2008 were approximately \$384,000.

At June 30, 2008 the District had construction commitments of approximately \$250,000. At June 30, 2008, the District also had a commitment to purchase two buses for approximately \$164,000.

## **General Fund**

General Fund Schedule of Revenues and Other Financing Sources - Budget to Actual

Year ended June 30, 2008	Final Budget	Variance Positive (Negative)	
Revenues	Budget	Actual	(regative)
Local Sources			
Property taxes	\$ 11,158,875	\$ 11,154,470	\$ (4,405)
Investment income	375,822	344,377	(31,445)
Tuition	32,868	37,548	4,680
Fees and charges	26,798	22,095	(4,703)
Other	150,773	185,720	34,947
Total revenues from local sources	11,745,136	11,744,210	(926)
Intermediate Sources			
Special education	4,075,739	3,983,960	(91,779)
Other	137,286	255,592	118,306
Total revenues from intermediate sources	4,213,025	4,239,552	26,527
State Sources			
Unrestricted state aid	21,633,030	21,633,014	(16)
Restricted grants:			
At risk	1,127,436	1,189,195	61,759
Adult education	141,515	180,150	38,635
Michigan School Readiness	373,029	281,386	(91,643)
Other	61,896	49,164	(12,732)
Total revenues from state sources	23,336,906	23,332,909	(3,997)
Federal Sources			
Title I	1,032,499	1,030,545	(1,954)
IDEA	1,145,469	1,185,080	39,611
Title II	376,201	293,995	(82,206)
Reading First	814,869	816,571	1,702
Title III	70,703	67,103	(3,600)
CSR	12,086	12,086	-
Other	88,441	111,746	23,305
Total revenues from federal sources	3,540,268	3,517,126	(23,142)
Total revenues	42,835,335	42,833,797	(1,538)
Other Financing Sources			
Sale of assets	9,767	9,767	-
<b>Total Revenues and Other Financing Sources</b>	\$ 42,845,102	\$ 42,843,564	\$ (1,538)

Year ended June 30, 2008	Salaries		Employee Benefits		Purchased Services
Expenditures					
Instruction					
Elementary	\$ 6,104,412	\$	2,799,281 \$	3	196,727
Middle school	1,907,448		879,046		88,255
High school	3,439,004		1,599,405		120,017
Early childhood	222,632		-		5,674
Special education	3,299,955		1,557,893		171,431
Compensatory education	1,374,263		620,638		18,875
Vocational education	220,539		96,451		1,910
Adult education	116,424		15,461		3,233
Total instruction	16,684,677		7,568,175		606,122
Support Services					
Counseling	494,671		224,297		257
Special education ancillary	1,575,613		711,033		15,516
Improvement of education	624,466		240,916		385,693
Media services	141,677		61,876		9,721
Instructional support	331,432		132,606		12,149
Board of education	-		-		98,499
Executive administration	220,878		64,297		11,083
School administration	1,507,890		577,328		33,566
Fiscal services	177,467		93,598		18,362
Printing services	-		-		326,428
Other business services	148,669		141,453		29,287
Operation and maintenance	425,963		210,987		1,701,448
Security	71,039		26,793		66,497
Student transportation	522,950		184,001		96,433
Research and development	18,579		8,903		4,068
Communication services	78,150		30,007		92,212
Staff services	243,160		117,908		11,436
Support services technology	302,479		129,997		124,026
Other support services	-		-		-
Total support services	6,885,083		2,956,000		3,036,681
Community Services	57,211		14,115		33,275
Payments on Installment Contract	-		-		-
Total expenditures	23,626,971		10,538,290		3,676,078
Other Financing Use					
Transfers out	-		-		-
<b>Total Expenditures and Other Financing Use</b>	\$ 23,626,971	\$	10,538,290 \$	2	3,676,078

## General Fund Schedule of Expenditures and Other Financing Use - Budget to Actual

	Supplies, Materials and ner Expenses		Capital Outlay		Total Actual Expenditures		Final Budget		Variance Positive (Negative)
\$	238,410	\$	23,610	\$	0 262 440	\$	0.212.244	\$	(50,096)
Ф	63,943	Ф	20,059	Ф	9,362,440 2,958,751	Ф	9,312,344 2,971,159	Ф	12,408
	136,630		115,781		5,410,837		5,421,595		10,758
	4,228		-		232,534		224,933		(7,601)
	45,182		_		5,074,461		4,977,431		(97,030)
	43,566		_		2,057,342		2,034,198		(23,144)
	3,065		267		322,232		303,992		(18,240)
	22,799		_		157,917		90,225		(67,692)
	557,823		159,717		25,576,514		25,335,877		(240,637)
	331,023		132,717		23,370,314		23,333,077		(210,037)
	1,032		_		720,257		720,424		167
	16,352		_		2,318,514		2,234,517		(83,997)
	112,673		_		1,363,748		1,422,480		58,732
	41,069		-		254,343		246,376		(7,967)
	4,325		-		480,512		521,472		40,960
	31,424		-		129,923		118,650		(11,273)
	4,430		2,747		303,435		296,909		(6,526)
	33,625		648		2,153,057		2,167,251		14,194
	6,656		388		296,471		334,285		37,814
	-		-		326,428		341,068		14,640
	17,636		-		337,045		434,809		97,764
	1,200,322		35,605		3,574,325		3,759,088		184,763
	-		-		164,329		157,144		(7,185)
	93,208		253		896,845		1,053,661		156,816
	-		-		31,550		35,005		3,455
	4,262		313		204,944		206,649		1,705
	2,608		160.020		375,112		376,744		1,632
	199,077 94,827		168,029		923,608 94,827		980,228 107,197		56,620 12,370
-			-						
	1,863,526		207,983		14,949,273		15,513,957		564,684
	64,475		-		169,076		165,395		(3,681)
	138,173		-		138,173		138,500		327
	2,623,997		367,700		40,833,036		41,153,729		320,693
	682,000		_		682,000		681,231		(769)
\$	3,305,997	\$	367,700	\$	41,515,036	\$	41,834,960	\$	319,924
ф	3,303,771	Ψ	507,700	φ	+1,515,050	_	41,034,900	φ	317,744

# Nonmajor Governmental Funds

## Nonmajor Governmental Funds Combining Balance Sheet

June 30, 2008	Specia Food Service	<u>evenue</u> Athletics	Capital Projects 1998 Sinking Fund		g		
<b></b>	2011100				1 0110		
Assets							
Cash and investments	\$ 421,970	\$	58,467	\$	1,476,333	\$ 1,956,	770
Due from other funds	1,698		-		-	1,	698
Due from other governmental units	13,215		-		73	13,	288
Inventories	38,346		-		-	38,	346
Total Assets	\$ 475,229	\$	58,467	\$	1,476,406	\$ 2,010,	,102
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 2,471	\$	349	\$	57,224	\$ 60,	044
Accrued payroll liabilities	3,141		12,159		-	15,	,300
Deferred revenue	60,212		-		-	60,	,212
Due to other funds	55		100		-		155
Due to other governmental units	100		-		-		100
Total liabilities	65,979		12,608		57,224	135,	811
Fund Balances							
Reserved for inventories and prepaids	38,346		_		-	38.	346
Unreserved	370,904		45,859		1,419,182	1,835,	
Total fund balances	409,250		45,859		1,419,182	1,874,	291
<b>Total Liabilities and Fund Balances</b>	\$ 475,229	\$	58,467	\$	1,476,406	\$ 2,010,	,102

## Nonmajor Governmental Funds Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2008	Speci Food Service	Athletics	Capital Projects 1998 Sinking Fund	Total	
Revenues					
Local sources:					
Property taxes	\$ -	\$ -	\$ 980,665	\$ 980,665	
Other local	537,258	153,406	75,987	766,651	
State sources	65,510	-	-	65,510	
Federal sources	999,565	-	-	999,565	
Total revenues	1,602,333	153,406	1,056,652	2,812,391	
Expenditures					
Food service	1,635,186	-	-	1,635,186	
Athletics	-	727,819	-	727,819	
Capital outlay	116,258	34,694	742,586	893,538	
Total expenditures	1,751,444	762,513	742,586	3,256,543	
Excess (deficiency) of revenues over expenditures	(149,111)	(609,107)	314,066	(444,152)	
Other Financing Source		<b>620,000</b>		<b>620</b> 000	
Transfers in		620,000	-	620,000	
Changes in fund balances	(149,111)	10,893	314,066	175,848	
Fund Balances, beginning of year	558,361	34,966	1,105,116	1,698,443	
Fund Balances, end of year	\$ 409,250	\$ 45,859	\$ 1,419,182	\$ 1,874,291	

Food Service Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual

	Final	Variance Positive			
Year ended June 30, 2008	Budget	Actual	(Negative)		
Revenues					
Local sources:					
Food sales	\$ 316,408	\$ 313,144	\$ (3,264)		
Special events	204,160	204,393	233		
Other	13,379	19,721	6,342		
State sources:					
State aid	65,082	65,510	428		
Federal sources:					
Child nutrition grants	951,739	935,444	(16,295)		
USDA Commodities	33,191	64,121	30,930		
			_		
Total revenues	1,583,959	1,602,333	18,374		
Expenditures					
Salaries and benefits	783,423	773,928	9,495		
Food purchases	685,385	664,547	20,838		
Commodities	-	72,579	(72,579)		
Purchased services	2,500	2,392	108		
Equipment rental and supplies	145,140	103,407	41,733		
Other	9,262	18,333	(9,071)		
Capital outlay	83,195	116,258	(33,063)		
•			<u> </u>		
Total expenditures	1,708,905	1,751,444	(42,539)		
Changes in fund balance	(124,946)	(149,111)	(24,165)		
Fund Balance, beginning of year	558,361	558,361			
Fund Balance, end of year	\$ 433,415	\$ 409,250	\$ (24,165)		

# Athletics Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual

Year ended June 30, 2008	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Local sources:			
Admissions and participation fees	\$ 148,968	\$ 135,885	\$ (13,083)
Other	2,899	17,521	14,622
Total revenues	151,867	153,406	1,539
Expenditures			
Salaries and benefits	434,127	430,786	3,341
Purchased services	200,951	219,392	(18,441)
Equipment rental and supplies	24,352	23,096	1,256
Insurance and fees	39,742	42,557	(2,815)
Other	4,493	11,988	(7,495)
Capital outlay	32,842	34,694	(1,852)
Total expenditures	736,507	762,513	(26,006)
Deficiency of revenues over expenditures	(584,640)	(609,107)	(24,467)
Other Financing Source			
Transfers in	620,000	620,000	
Changes in fund balance	35,360	10,893	(24,467)
Fund Balance, beginning of year	34,966	34,966	
Fund Balance, end of year	\$ 70,326	\$ 45,859	\$ (24,467)

## **Agency Fund**

## Agency Fund Statement of Changes in Assets and Liabilities

Year ended June 30, 2008	Balance, July 1, 2007 Additions				Deletions	Balance, Deletions June 30, 2008			
Assets Cash and investments	\$	281,150	\$	551,545	\$	585,350	\$	247,345	
Liabilities Accounts payable Due to other funds Due to student groups	\$	5,306 6,139 269,705	\$	10,239 589,633 527,403	\$	5,587 595,245 560,248	\$	9,958 527 236,860	
Total Liabilities	\$	281,150	\$	1,127,275	\$	1,161,080	\$	247,345	

## Schedules of Debt Service Requirements

## 2002 Refunding Bonds Schedule of Bonded Indebtedness

		Annual Funding Requirements				
Maturity Date	Interest					
May 1,	Rate	Principal		Interest		Total
2009	5.00 %	\$ 3,360,000	\$	360,750	\$	3,720,750
2010	5.00	3,855,000		192,750		4,047,750
		\$ 7,215,000	\$	553,500	\$	7,768,500

### **Purpose:**

The Refunding Bonds were issued by the issuer pursuant to (i) the provisions of Chapter VI of Act 202, Public Acts of Michigan, 1943, as amended, and (ii) resolutions adopted by the Board of Education of the issuer on December 17, 2001 and February 18, 2002, in order to provide funds necessary to refund the portion of the issuer's 1992 Refunding Bonds, consisting of Serial Bonds which are due and payable May 1, 2003 through May 1, 2010, inclusive, issued in the original principal amount of \$20,045,000.

### **Redemption Prior to Maturity:**

Bonds are not subject to redemption prior to maturity.

## 1992 Refunding Bonds Schedule of Bonded Indebtedness

		Annual Funding Requirements			
Maturity Date	Interest	Delinainal	Totalist	T-4-1	
<i>May 1</i> ,	Rate	Principal	Interest	Total	
2011	6.70 %	\$ 1,267,221	\$ 3,117,779	\$ 4,385,000	
2012	6.75	1,213,949	3,316,051	4,530,000	
2013	6.75	1,168,542	3,491,458	4,660,000	
2014	6.80	1,116,834	3,693,166	4,810,000	
2015	6.80	1,067,391	3,847,609	4,915,000	
2016	6.80	1,027,787	4,032,213	5,060,000	
2017	6.80	991,748	4,228,252	5,220,000	
2018	6.80	955,137	4,419,863	5,375,000	
2019	6.80	919,917	4,615,083	5,535,000	
		\$ 9,728,526	\$ 34,761,474	\$ 44,490,000	

#### **Purpose:**

The Refunding Bonds were issued by the issuer pursuant to (i) the provisions of Chapter VI of Act 202, Public Acts of Michigan, 1943, as amended, and (ii) resolutions adopted by the Board of Education of the issuer on February 17, 1993 and June 12, 1993, in order to provide funds necessary to refund the portion of the issuer's 1989 School Building and Site Bonds (General Obligation - Unlimited Tax), consisting of Capital Appreciation Bonds which are due and payable May 1, 2019 (the "Refunded Bonds") issued in the original principal amount of \$31,878,497.

#### **Redemption Prior to Maturity:**

Bonds are not subject to redemption prior to maturity.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards



### **Independent Auditors' Report**

Board of Education Holland Public Schools Holland, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Holland Public Schools (the District) as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements, and have issued our report thereon dated October 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Holland Public Schools' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Holland Public Schools, in a separate letter dated October 8, 2008.

This report is intended solely for the information and use of the Board of Education, management, others within the District, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Grand Rapids, Michigan

BDO Seedma, LLP

October 8, 2008

Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133



### **Independent Auditors' Report**

Board of Education Holland Public Schools Holland, Michigan

#### **Compliance**

We have audited the compliance of Holland Public Schools (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Holland Public Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Holland Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of the auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2008-1.

#### Internal Control Over Compliance

The management of Holland Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws,

regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, others within the District, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Grand Rapids, Michigan

BDO Seedma, LLP

October 8, 2008

# Schedule of Expenditures of Federal Awards

Year ended June 30, 2008	Federal CFDA Number	Program of Award Amoun	(memorandum
Federal Grantor Pass-Through Grantor Program/Project Number			
U.S. Department of Education			
Passed through Michigan Department of Education:			
Adult Education	84.002		
071130-710487	01.002	\$ 46,800	\$ 46,749
081130-810487		60,300	
Title I 061530-0607 071530-0607 081530-0708  Title I, Migrant Education 071890-0607	84.010 84.011	45,862 845,190 984,458	792,795
081890-0708		57,219	,
Service Provider Self Review	84.027		
070440-0607		5,500	2,174
Homeless Children and Youths 072320-0607	84.196	10,000	8,063
072320-0007 072320-0708-C		1,900	,
082320-0708		10,000	

# Schedule of Expenditures of Federal Awards

Accrued (Deferred) Revenue at July 1, 2007	Adjustments	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue at June 30, 2008
\$ 12,976	\$ -	\$ 12,976 56,483	\$ - 60,300	\$ - 3,817
 12,976	-	69,459	60,300	3,817_
8,490	-	8,490	-	-
115,812	-	115,812	-	_
-	-	851,993	981,025	129,032
124,302	-	976,295	981,025	129,032
6,476 -	- -	6,476 43,182	- 49,520	6,338
6,476	-	49,658	49,520	6,338
 2,174	-	2,174	-	
1,845	-	1,845 1,900 6,915	1,900 8,873	- - 1,958
1,845	-	10,660	10,773	1,958

(continued)

Year ended June 30, 2008	Federal CFDA Number	P	rogram or Award Amount	Exp	Prior Year penditures norandum only)
Federal Grantor Pass-Through Grantor Program/Project Number					
Passed through Michigan Department of Education (continued):					
Title V	84.298				
070250-0607		\$	5,432	\$	4,487
080250-0708			6,244		-
Title II D Technology Literacy Grants	84.318				
074290-0607			8,661		7,280
084290-0708			9,253		-
Comprehensive School Reform Demonstration	84.332				
061870-0607			104,000		100,764
Reading First Grants	84.357				
052930-0506			398,187		-
062930-0607			793,063		793,063
082930-0708			826,690		-
Title III-English Language Acquisition	84.365				
070580-0607			70,182		69,922
080580-0708			71,023		<u>-</u>
Title IIA-Improving Teacher Quality	84.367				
080520-0708	01.507		343,376		-
060520-0607			168,693		168,693
070520-0607			338,321		323,699
Total passed through Michigan Department of Education					

<sup>(1)</sup> Adjustment for overpayment received in 2006/07.

# Schedule of Expenditures of Federal Awards (continued)

 Accrued (Deferred) Revenue at July 1, 2007	Adjustments		Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue at June 30, 2008
\$ 115	\$ - -	\$	115 4,078	\$ - 5,243	\$ - 1,165
115	-		4,193	5,243	1,165
7	- -		7 10,126	- 10,137	- 11
7	-		10,133	10,137	11
 6,334			18,420	12,086	
 (3,722) 83,116	3,722 (1	)	83,116 715,370	- - 816,571	- - 101,201
 79,394	3,722		798,486	816,571	101,201
13,399	- -		13,399 60,899	67,103	- 6,204
13,399	-		74,298	67,103	6,204
10,884 51,745	- - -		287,094 10,884 51,745	293,995	6,901 - -
 62,629	-		349,723	293,995	6,901
309,651	3,722		2,363,499	2,306,753	256,627

(continued)

			Prior Year
	Federal	Program or	Expenditures
	CFDA	Award	(memorandum
Year ended June 30, 2008	Number	Amount	only)
Federal Grantor Pass-Through Grantor Program/Project Number			
Passed through Ottawa Area Intermediate School District:			
Safe and Drug Free Schools	84.186		
082860-0708		\$ -	\$ -
IDEA - Preschool Incentive	84.173		
080460-0708	075	37,394	_
070460-0607		37,212	37,212
	04.027	7	
IDEA - Flow Through 080450-0708	84.027	1 147 406	
070450-0708		1,147,496	1 106 049
		1,106,048	1,106,048
IDEA - Transition	84.027		
080490-CB		190	-
Total passed through Ottawa Area Intermediate School District			
Total U.S. Department of Education			
U.S. Department of Health and Human Services			
Passed through Ottawa Area Intermediate School District:			
Medicaid Outreach - 06/07	93.778	12,764	12,764
Medicaid Outreach - 07/08		11,422	-
Total U.S. Department of Health and Human Services			
U.S. Department of Agriculture			
Passed through Michigan Department of Education:			
Child Nutrition Cluster:			
National School Lunch	10.555	-	-
National School Breakfast	10.553	-	-
Summer Food Program	10.559	84,177	-
Fresh Fruit and Vegetable Program	10.582	-	-
Commodities - Entitlement	10.550	-	-
Total U.S. Department of Agriculture			
<b>Total Federal Financial Assistance</b>			

# Schedule of Expenditures of Federal Awards (continued)

Accrued (Deferred) Revenue at July 1, 2007	Adjustments	Current Year Receipts	Current Year Expenditures	Jı	Accrued (Deferred) Revenue at une 30, 2008
\$ -	\$ -	\$ 13,871	\$ 13,871	\$	-
18,606	-	18,697 18,606	37,394		18,697 -
553,024	-	573,748 553,024	1,147,496		573,748 -
 -	-	-	190		190
571,630	-	1,177,946	1,198,951		592,635
881,281	3,722	3,541,445	3,505,704		849,262
2,504	-	2,504 11,422	- 11,422		-
2,504	-	13,926	11,422		-
-	-	674,060	674,060		-
-	-	159,194	159,194		- (20.225)
(32,603)	-	84,177	78,455		(38,325)
16,114	-	36,715 86,008	23,735 64,121		3,134 (21,887)
(16,489)		1,040,154	999,565		(57,078)
\$ 867,296	\$ 3,722	\$ 4,595,525	\$ 4,516,691	\$	792,184

# Note to Schedule of Expenditures of Federal Awards

# Note to Schedule of Expenditures of Federal Awards

#### 1. General

Expenditures are recorded under the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

Expenditures in this schedule reconcile with amounts reported in the basic financial statements and financial reports. Amounts reported in the Grant Section Auditors' Report reconcile with this schedule. Inventory values are based on the USDA value for donated food commodities and include spoilage.

# **Schedule of Findings** and Questioned Costs

# Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Section I - Summary of Auditors' Results					
Financial Statements					
Type of auditors' report issued:	unqualified				
Internal control over financial reporting:					
Material weakness(es) identified?	no				
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	none reported				
Noncompliance material to financial statements noted?	no				
Federal Awards					
Internal control over major programs:					
Material weakness(es) identified?	no				
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	none reported				
Type of auditors' report issued on compliance for major programs:	unqualified				
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of <i>OMB Circular A-133</i> ?	yes				
Identification of major programs:					
CFDA Number Name of Federal Program or Cluster	_				
84.027 and 84.173 Special Education Cluster					
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000				
Auditee qualified as low-risk auditee?	yes				
Section II - Findings Related to the Financial Statements					

There were no findings which are required to be reported under Government Auditing Standards.

Schedule of Findings and Question Costs Year Ended June 30, 2008

### **Section III - Findings and Questioned Costs for Federal Awards**

2008-1 Allowable Cost/Cost Principles Special Education Cluster CFDA Nos. 84.027 and 84.173 Questioned Costs \$0

#### **Condition**

Certifications for employees working solely on programs support by Special Education funds were signed annually.

#### Criteria

Office of Management and Budget Circular A-87 specifies that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least semi-annually and must be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

#### Cause/Effect

The District did not have a policy in place to ensure compliance with this federal requirement. As a result, only annual certifications were obtained from the employees.

#### Recommendation

The District must obtain, at a minimum, semi-annual certifications from employees documenting which federal programs to which their time is charged.

#### Auditee Response

The District provides information regarding the certifications for Special Education programs and has changed the policy to ensure compliance with Federal law. When assignments for staff change, the District has required updates to the certification to be placed in the file. The work instructions used for compliance with this requirement have been updated to ensure that the information is obtained and retained to meet the semi-annual certification process.

Summary Schedule of Prior Year Findings Year Ended June 30, 2008

## **Findings Related to Basic Financial Statements**

Finding Number	Finding	Comments
2007-1	Significant adjustments to the trial balances for the General and Food Services Funds were identified by the auditors.	Finding has been cleared.

# **Findings for Federal Awards**

Finding Number	Finding	CFDA Number	Questioned Cost	Comments
2007-2	Students who did not meet the eligibility requirements received free/reduced meals under the national school lunch program.	10.553, 10.555 and 10.559	N/A	Finding has been cleared.

99 Monroe Avenue N.W., Suite 800 Grand Rapids, Michigan 49503-2654 Telephone: (616) 774-7000 Fax: (616) 776-3680

October 8, 2008

Board of Education Holland Public Schools Holland, Michigan

Dear Members of the Board:

We have audited the basic financial statements of Holland Public Schools (the District) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 8, 2008. In planning and performing our audit, we considered the District's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal controls.

During our audit, we noted certain matters involving accounting procedures and business practices that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve financial reporting practices or result in operating efficiencies.

We would be happy to further discuss our recommendations with you and provide whatever assistance you deem appropriate to implement these recommendations.

We appreciate the cooperation of the District's staff that our personnel received during the audit.

This memorandum is intended solely for the information and use of the Board of Education, management and others within the District.

Very truly yours,

BDO Seedma, LLP

Memorandum of Recommendations Year Ended June 30, 2008

#### **Memorandum of Recommendations**

#### **Accounts Payable**

There is a lack of segregation of duties concerning vendor set-up in the accounts payable department. The same individual that is responsible for generating accounts payable checks also has the ability to add and remove vendors. Personnel involved in preparing checks should not have the ability to add or remove vendors. Inadequate segregation of duties can lead to misappropriation of cash.

#### Recommendation

Segregation of duties over accounts payable should be improved. The responsibility to add and remove vendors in the accounts payable system should be switched to personnel who cannot generate accounts payable checks.

#### Management's Response

The implementation of the new accounting system called MUNIS will allow the District to continue to review options to segregate these duties within our current staffing constraints. Management will continue to strive for improvement in this and all areas of control and reporting in the coming year and will adopt methodologies which will enhance the overall financial control of the District.

## **Federal Program Payroll Certifications**

During the course of our audit of federal programs, we noted that the payroll certifications for employees who worked exclusively in a program supported by federal funds were only being signed annually. The payroll certifications are required by Office of Management and Budget Circular A-87 to be signed at least semi-annually.

#### Recommendation

The District must obtain, at a minimum, semi-annual certifications from employees documenting to which federal programs their time is charged.

#### Management's Response

The District provides information regarding the certifications for Special Education programs and has changed the policy to ensure compliance with

#### **Memorandum of Recommendations**

Federal Law. When assignments for staff change, the District has required updates to the certification to be placed in the file. The work instructions used for compliance with this requirement have been updated to ensure that the information is obtained and retained to meet the semi-annual certification process.

#### **Logical Security Access (Passwords)**

As noted in our audits the past few years, passwords are not changed by system users on a frequent basis.

#### Recommendation

Document a formal information security policy and ensure that it is adhered to by all members of the administration, as well as students. This policy should include specific password rules to be implemented across all IT systems, including the network and the School Finance application. Password controls should be enforced using automated settings within the software rather than via manual policies and procedures. A key element in good password security is that users are allowed and enforced to change their own passwords and that these passwords are not known or shared by other individuals.

As a "best practice," the following settings should be considered:

- Minimum password length: 8 characters
- Password aging: 90 days
- Password history: Remember 3-5 previous passwords
- Account lockout: After 5 invalid attempts; must be reset by system administrator

Password controls at the network level help ensure that potentially sensitive or confidential student data stored on the network is secure. Password controls within the financial application provide enhanced controls related to segregation of duties and access to financial data.

#### **Memorandum of Recommendations**

#### Management's Response

In the last fiscal year, the District installed a new computer system. The installation of this system has provided the opportunity to enhance the network security methods for the District. The District is still working on the implementation of this portion of the system as it affects multiple programs for all users. Management continues to strive for improvement in this and all areas of security and control.

#### **New Pronouncements**

There are several new pronouncements that have been issued by the Governmental Accounting Standards Board (GASB) that will affect future financial statements issued by the District. A brief summary of these new pronouncements is presented below:

GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, discusses how to identify and report pollution remediation obligations. Examples include water pollution and asbestos removal but not landfill closure costs. The pronouncement identifies five obligating events which could trigger recording a liability. The liability would include pre-cleanup, cleanup activities, oversight and enforcement activities. A liability is required to be reported once it is possible to reasonably estimate the liability, regardless of whether it is probable that it will be paid. The pronouncement will be effective for the year ending June 30, 2009.

GASB Statement No. 51, Accounting and Reporting for Intangible Assets, requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Goodwill is specifically excluded. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. Examples of assets that may be considered intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. There are special rules for internally generated software. This pronouncement will be effective for the year ending June 30, 2010.

GASB Statement No. 52, Land and Other Real Estate Held as Investments by Endowments, requires land and real estate held by endowments to be reported at fair value with changes in fair value reported as investment income. This pronouncement will be effective for the year ending

#### **Memorandum of Recommendations**

June 30, 2009. Unless an endowment currently exists or is established, this will have no effect on the financial reporting of the District.

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, requires that derivatives be recognized and measured at fair value with changes recognized as investment income. Hedges must be evaluated for effectiveness. Examples of derivatives are interest rate locks, interest rate swaps or future contracts. The approach is similar to private sector accounting and reporting. This pronouncement will be effective for the year ending June 30, 2010.

**GASB Invitation to Comment,** *Fund Balance Reporting and Governmental Fund Type Definitions*, attempts to clarify the availability of resources in funds other than the General Fund and define what is meant by "legally restricted." The pronouncement would clarify the fund balance classifications and eliminate the "reserved fund balance" category. The new categories would be "spendable" and "nonspendable," with the "spendable" being further broken down into four sub-categories: restricted, limited, assigned and unassigned.

#### Recommendation

Review the new pronouncements to determine changes necessary to ensure that the District is in compliance with applicable financial statement and note disclosures.